

# **Equality impact assessment on the practising certificate fee and Compensation Fund contributions for 2024-25**

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## Introduction

This is an equality impact assessment of:

- the regulatory element of the annual practising certificate (PC) fee for 2024-25
- the proposed Compensation Fund contribution for 2024-25.

Our impact assessment has been informed by the data we collect from law firms which is published in our [law firm diversity data tool](#). It covers:

- our diversity data insights
- an overview of the fee and contribution
- our assessment of impacts
- our conclusions on the equality impact of the PC fee and Compensation Fund contributions for 2024-25
- next steps.

## Diversity data insights

We do not hold or collect data on the income of individual solicitors. For the purposes of this assessment we have made assumptions about the earnings of solicitors working in certain working environments, including that:

- solicitors working in smaller law firms may be more likely to earn less than solicitors working in larger firms
- solicitors working in certain areas - such as criminal law - will likely earn less compared to solicitors working in more profitable areas of law - such as commercial law
- solicitors working in-house may be less likely to have their Compensation Fund contribution paid by their employer
- solicitors working part-time or intermittently during the year may be more likely to earn less than solicitors working consistently or full-time.

Looking first at smaller firms – meaning law firms operating with 1-5 partners - we have used the following insights from our law firm diversity data, to illustrate the diversity profile of solicitors working in those firms:

- men are overrepresented in law firms with 1 partner, but not in law firms with 2-5 partners

- Black and Asian solicitors are overrepresented in law firms with 1 partner and Asian solicitors are also overrepresented in law firms with 2-5 partners
- solicitors aged 45 and upwards are overrepresented in law firms with 1-5 partners
- disabled solicitors are slightly underrepresented in law firms with 1 partner but not in firms with 2-5 partners
- Gay and Lesbian solicitors are slightly underrepresented in law firms with 1-5 partners
- Hindu, Jewish, Muslim, and Sikh solicitors are overrepresented in law firms with 1 partner and for law firms with 2-5 partners, Hindu and Muslims solicitors are overrepresented
- solicitors from lower or intermediate socio-economic backgrounds are overrepresented in law firms with 1-5 partners.

We have used the following insights about solicitors working in the criminal law sector as an illustrative example of a sector that may be less profitable than others:

- men are overrepresented in law firms which do a majority of criminal work
- solicitors from Black, Asian and Other ethnic groups are overrepresented in law firms which do a majority of criminal work
- solicitors aged 45 and upwards are overrepresented in law firms which do a majority of criminal work
- disabled solicitors are slightly overrepresented in law firms which do a majority of criminal work
- Gay and Lesbian solicitors are underrepresented in law firms which do a majority of criminal work
- Hindu, Muslim and Sikh solicitors are overrepresented in law firms which do a majority of criminal work
- solicitors from a lower or intermediate socio-economic background are overrepresented in law firms which do a majority of criminal work.

## The regulatory element of the PC fee

The required regulatory element of the PC fee for 2024-25 is £162. That is unchanged from 2023-24.

Practising fees are determined and paid annually by:

- individual practising solicitors who pay a flat fee
- law firms regulated by the SRA, calculated based on their turnover.

We use a 60/40 split between practising fees payable by law firms and individual solicitors to make sure we meet the necessary financial requirements for each 12-month period. This is confirmed through our [Fees Policy](#). Those financial requirements are the SRA's running costs, certain Law Society activities, and levies to fund the work of:

- the Solicitors Disciplinary Tribunal

- the Legal Services Board
- the Financial Conduct Authority (Office for Professional Body Anti-Money Laundering Supervision)
- the Legal Ombudsman.

## SRA Compensation Fund contributions

The SRA Compensation Fund contributions for 2024-25 are:

- £90 for individuals, representing a £60 increase from 2023-24
- £2,220 from law firms that hold client money, representing a £1,560 increase from 2023-24.

In both cases the contribution is a flat fee rather than being dependant on the firm or individual's income or turnover.

The Compensation Fund is financed entirely by these annual contributions. Each year we assess and set required contributions, including analysing relevant claims made against the Fund and anticipated future claims. We currently separate the total monetary value required by the Compensation Fund into two, with half due from individual solicitors who hold a PC, and half due from law firms that hold client money.

The increased requirement for 2024-25 is driven by increased SRA intervention costs and Compensation Fund claims over the previous financial year, that reduced the Fund's reserves. We carried out 65 interventions during 2022-23 - more than double the number in 2021/22. Our interventions into the [Metamorph Group](#) and [Axiom Ince](#) in particular brought significant costs and payments to former clients of the firms.

## The combined regulatory requirement (PC fee and Compensation Fund contributions) for 2024-25

When the regulatory element of the individual PC fee and the Compensation Fund contribution payable by each individual solicitor is combined, the total amount payable by individuals in respect of the SRA's work for 2024-25 is £252. This represents an overall increase of £60 – rising from £192 in 2023-24.

The total amount payable by law firms will vary because the PC element for law firms is calculated based on turnover.

## Our assessment of impacts

### Overview

It is challenging to separately evaluate the impact of the PC fee and Compensation Fund contributions for individuals or law firms.

This is because many law firms cover the annual payments due from individual solicitors they employ, as well as the law firm element of these payments.

This means that, while the impact of increased payments due from individual solicitors in those firms is not experienced directly by the solicitors working there, it is nevertheless experienced by those law firms.

Alongside this we know that some solicitors working in law firms and in other positions pay their own individual PC fee and Compensation Fund contribution from their own earnings. This is why we aim to make sure the majority of the PC fee payable each year for regulatory purposes is met by law firms and based on their turnover. It is also why we aim to maintain the required Compensation Fund contributions at the lowest possible level.

We also mitigate potential impacts of the practising fees for individual solicitors who are absent from work for maternity, paternity, shared parental and adoption leave through our policy for reduced fees. And by offering pro-rated fees for PCs issued part-way through a practising year.

### **Impact of the regulatory element of the practising fee**

Because we are not proposing to increase the regulatory element of the PC fee this year, there will be no addition or change to costs - or burdens on - solicitors or law firms, in relation to this element of the annual payment due.

### **Impact of the proposed Compensation Fund contribution**

#### Individual solicitor impacts

We aim to always keep required contributions as manageable as possible. The trajectory of the contribution level for individuals over recent years confirms that we do reduce the contribution when it is possible to do so.

<b>Practising year</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
Individual contribution	£90	£60	£50	£40	£30	£30	£90

However, the exceptional circumstances referred to above have meant we have not been able to avoid an increase for 2024-25. Individuals who pay their own Compensation Fund contribution will be impacted by this increase, and this will be felt the most by those who are earning the least.

As we do not hold income data about individual solicitors, we have considered the size of firm and the type of work a solicitor might undertake, to understand the potential equality impact (as set out in the data insights section above).

#### Law firm impacts

The increased contribution requirement for law firms that hold client money will have a greater impact for those firms which also pay individual Compensation Fund contributions on behalf of solicitors that work for them. And the more solicitors a firm employs, the more individual solicitors' fees it will pay.

Our earlier assumptions about smaller firms (those with 1-5 partners), and law firms operating in less profitable areas of work – such as firms doing a majority of their work in criminal law - indicates that these firms will be the most impacted by the increased contribution requirement.

The data referred to above sets out the groups overrepresented in those firms, and who could therefore potentially be impacted more than others.

## Conclusions on the equality impact of the PC fee and Compensation Fund contributions for 2024-25

Our assessment identifies a financial impact for individuals who are responsible for paying their own Compensation Fund contribution. This includes some solicitors who, for example, work in-house, or in sectors where their earnings may be lower than others. They will pay an additional £60 in 2024-25 for the Compensation Fund contribution compared to the 2023-24 level.

Smaller law firms and firms operating predominately in less profitable sectors are also more likely to feel the impact of the increase. They will pay an additional £1,560 for their Compensation Fund contribution compared to the 2023-24 level, and potentially will pay increased contributions on behalf of individual solicitors that they employ.

Our data indicates that in smaller firms (with 1-5 partners) and firms doing mainly criminal law, there is an overrepresentation of men, solicitors aged 45 and over, disabled solicitors, Black, Asian and minority ethnic solicitors, those from Hindu, Jewish, Muslim and Sikh faith groups, and people from lower or intermediate socio-economic backgrounds.

Based on our assumptions about which firms and individuals are likely to be most affected by an increased financial burden, we have concluded that there could, therefore, be a potential differential equality impact towards the groups mentioned above.

In light of the potential differential impacts, we have considered whether there are ways of mitigating these adverse impacts, while still continuing to deliver the overall aims of the Compensation Fund and secure strong consumer safeguards. Given the current fee structure, which we agree should be fully considered and subject to consultation, the main mitigating step we have been able to take is maintaining the regulatory element of the individual PC fee at the same level as 2023-24. This helps to some extent to mitigate impacts that are felt by an increased Compensation Fund contribution.

However, there remains an overall increase in the annual fees due from individual solicitors and law firms for 2024-25. So there still remains a risk of adverse impact for the specified groups, and in light of this our assessment considers whether the increased contributions for individuals and law firms are nevertheless justifiable.

Given our overarching aim to maintain the protections in place for the public and our requirement to maintain the Compensation Fund, we believe the increase is necessary and proportionate for the following reasons.

The viability of the Compensation Fund is important in order to maintain confidence and trust in legal services, and to secure the [Legal Services Act's Regulatory Objectives](#). So there is a balance to be struck to do this in a way that also takes account of the impact on particular groups within the profession.

We try to maintain stability in Compensation Fund contributions over time and we keep those contributions as low as possible (evidenced above). However, maintaining stability is not always possible, and is affected by factors impacting law firms that are not always in our control. We have brought the individual contribution down in recent years. However, the exceptional circumstances we have seen in

recent times means the increase for the next practising year takes us to the same position as it was in 2018-19.

As part of our consultation on this assessment we heard feedback about the underpinning model used for determining Compensation Fund contributions, and how it might evolve in new ways to further reduce adverse impacts for some groups in the sectors most likely to be affected.

We will be considering alternative approaches to the current 50/50 split approach for determining the Fund contribution as part of our [Consumer Protection Review](#). This process will include a longer-term review of the Compensation Fund. We will be publishing more information about our proposals for the Compensation Fund, and as part of that will be carrying out a full equality impact assessment.